

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05  
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-01  
PA-01 PRS-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00  
XMB-02 OPIC-03 LAB-04 SIL-01 /084 W  
-----271524Z 000496 /53

R 271417Z DEC 76  
FM AMEMBASSY CAIRO  
TO SECSTATE WASHDC 0026

C O N F I D E N T I A L CAIRO 17769

E.O. 11652: GDS  
TAGS: ECON, EG  
SUBJECT: EGYPTIAN ECONOMIC PROBLEMS AND POSSIBILITIES BRIEFLY  
CONSIDERED

REF: A. CAIRO 14093, B. CAIRO 14207

1. OW AT YEAR'D END IS GOOD A TIME AS ANY TO REVIEW  
THE SET OF QUESTIONS RELATED TO EGYPT'S ECONOMY ARISING  
OVER THE COMING DAYS AND WEEKS. THESE RELATIVELY IMMEDIATE  
ISSUES INCLUDE (A) FINAL PREPARATION, APPROVAL AND IMPLEMEN-  
TATION OF THE 1977 GOE BUDGET; (B) COMPILATION OF THE  
FIVE-YEAR PLAN 1976 (SIC) - 80; (C) ARRANGING ACCESS TO THE  
GOE \$500 MILLION IN GUARANTEED AND DIRECT LOANS; (D) COPING  
WITH THE LARGE BANKING, COMMERCIAL AND OFFICIAL CREDIT ARREARS;  
(E) AMENDING THE INVESTMENT LAW, AND MODIFYING BUREAUCRATIC  
PROCEDURES, SO AS TO ATTRACT FOREIGN CAPITAL IN SIGNIFICANT  
AMOUNTS; (F) CONTINUING NEGOTIATIONS ON A STANDBY AGREEMENT  
WITH THE IMF; (G) PREPARING FOR THE UPCOMING IBRD CONSULTATIVE  
GROUP MEETING; AND (H) ADMINISTERING AND FURTHER MODIFYING THE  
NEW SYSTEM OF FOREIGN EXCHANGE CONTROLS.

2. THIS LENGTHY BUT NOT EXHAUSTIVE LIST OF QUESTIONS  
REQUIRING EARLY ACTION BY THE GOE DOES NOT INCLUDE  
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LONGER-RANGE PROBLEMS FOR WHICH THE BEGINNINGS OF SOLUTIONS  
MUST BE SOUGHT DURING 1977. THE LIST DOES, HOWEVER,  
REFLECT SYMPTOMATIC MANI-  
FESTATIONS OF THOSE DEEPER ECONOMIC  
MALADJUSTMENTS. THE ITEM ON 1977 BUDGET PREPARATION. FOR  
EXAMPLE, SUBSUMES THE ISSUE OF DOMESTIC SUBSIDIES, PRIMARILY

FOR BASIC FOOD COMMODITIES, WHICH HAVE GROWN TO THE STAGGERING TOTAL OF SOME \$1,300 MILLION - AND THIS ISSUE RELATES DIRECTLY TO NEGOTIATIONS WITH THE IMF ON NEEDED LONG-TERM REFORM MEASURES. ANY CHANGE IN THE INVESTMENT LAW AND ITS METHOD OF OPERATION WILL AFFECT GROWTH PROSPECTS FOR YEARS TO COME. DRAWING DOWN ON GODE LOANS (PROBABLY NOT UNTIL EARLY IN 1977), AFTER LENGTHY NEGOTIATIONS, WILL ALLEVIATE ONE PRESSING PROBLEM (I.E., MOPPING UP MOST THE RESIDUAL 1976 EXTERNAL COMMERCIAL DEBT -- SEE REFTELS), BUT UNDERTAKING A NEXT STAGE OF DISCUSSIONS WITH THE ARAB - FUNDED ORGANIZATION FOR FURTHER MONIES OVER THE MEDIUM TERM IS THEREBY IMPLIED.

3. FURTHER LINKAGES COULD BE SHWN, BUT THE POINT SHOULD BE CLEAR. THE GOE IS UNDER THE GUN TO TAKE A NUMBER OF HIGHLY IMPORTANT DECISIONS WHICH WOULD AFFECT NOT ONLY THE SHORT-RUN PERFORMANCE OF THE ECONOMY, BUT ALSO, AT LEAST INDIRECTLY, THE DEVELOPMENTAL AND POLITICAL PROSPECTS OF THE COUNTRY THROUGH THE END OF THIS DECADE.

4. WE ARE UNABLE TO PREDICT WITH ANY CERTAINTY THE DEGREE OF SUCCESS WITH WHICH THE GOE WILL BE ABLE TO TACKLE THESE VARIOUS IMMEDIATE PROBLEMS. WHAT IS CERTAIN IS THAT FEW, IF ANY, OF THE SHORT-OR LONG-TERM ISSUES WILL SIMPLY GO AWAY. ADDRESSING THEM REALISTICALLY WILL REQUIRE A CONCERTED EFFRT ON THE PART OF THE GOE'S DECISIOON-MAKERS AND TECHNICIANS, PLUS CONSIDERABLE UNDERSTANDING AND SUPPORT ON THE PART OF THOSE GOVERNMENTS AND INSTUTIONS REPRESENTED IN THE CG. THE SEVERE DISLOCATIONS IN THE ECONOMY ARISING BASICALLY FROM A LENGTHY AND POORLY-CONFIDENTIAL

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MANAGED COMMITMENT TO CENTRAL PLANNING ARE NOW EXACERBATED BY AN AS-YET TENTATIVE TRUN TOWARD A MIXED SYSTEM AND A LOSSENING OF VARIOU CONTROLS. THE GOE LEADERS RESPONSIBLE FOR GUIDING EGYPT BACK TO THE PATH OF EFFECTIVE ECONOMIC PERFORMANCE ARE NOT TO BE ENVIED THEIR TASK AT THIS INTER-MEDIATE STAGE.

5. THE EMBASSY DURING THE PAST YEAR HAS REPORTED EXTENSIVELY THE DIFFICULTIES FACING EGYPT OVER THE NEAR AND MEDIUM TERM. WHILE THOSE NUMEROUS ADVERSE CONSIDERATIONS REMAIN VALID, ONE POSITIVE FACTOR HAS ARISEN RECENTLY WHICH TENDS TO INJECT A MEASURE OF HOPE INTO OUR ASSESSMENTS: OVER THE SHORT-TERM, THE GOE'S POSSIBILITIES FOR MEANINGFUL ACTION SEEM ENHANCED BY WHAT APPEARS TO BE INCREASED WILL TO COME TO GRIPS WITH PROBLEMS OF ECONOMIC REFORM AND LIBERALIZATION. TOO MUCH CAN EASILY BE READ INTO POLICY PRONOUNCEMENTS (E.G., THE PM'S STATEMENT OF DECEMBER 11SEPTTEL) AND IT SHOULD BE BORNE IN MIND THAT POLITICAL CONSIDERATIONS ARE AND

WILL REMAIN PARAMOUNT IN THE THINKING OF SADAT AND THE PM. NONETHELESS, THE VERY TENOR OF GOVERNMENT OPERATIONS IN THE ECONOMIC FILED SHOWS SIGNS OF BEING CHANGED FOR THE BETTER, NOW THAT THE ELECTIONS ARE OVER AND NEW FACES HAVE BEEN BROUGHT INTO THE CABINET.

6. IF THIS APPARENT POLICY THRUST CAN CONTINUE AND THE CHANGE FROM A PLANNED TO A MIXED ECONOMY CAN BE ACCOMPLISHED, FACILITATED BY SOME EXTENT BY FOREIGN DONORS DURING THE CURRENT TRANSITIONAL PHASE, THEN UNDERLYING FACTORS OF POTENTIAL PRODUCTIVITY, GEOGRAPHICAL LOCATION AND EXTENSIVE INFRASTRUCTURE MAY PERMIT A REASONABLE RATE OF REAL GROWTH IN THE ECONOMY OVER THE MEDIUM TERM. MUCH DEPENDS ON HOW CONFLICTING INTERESTS REPRESENTED WITHIN THE CABINET ARE RESOLVED; DECISIONS TAKEN AT THE HIGHEST LEVELS OF THE OGE IN THIS REGARD SHOULD BECOME EVIDENT EARLY IN THE NEW YEAR. EILTS

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, GOVERNMENT BUDGET, ECONOMIC ESTIMATES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 27 DEC 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** KelleyW0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976CAIRO17769  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D760472-1160  
**From:** CAIRO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19761211/aaaaaixo.tel  
**Line Count:** 131  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION NEA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 CAIRO 14093, 77 CAIRO 14207  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** KelleyW0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 08 JUN 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <08 JUN 2004 by CunninFX>; APPROVED <28 OCT 2004 by KelleyW0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EGYPTIAN ECONOMIC PROBLEMS AND POSSIBILITIES BRIEFLY CONSIDERED  
**TAGS:** ECON, EG  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006